

# To rent or to buy: weighing up the options

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- Buying or renting a vexing question
- Lots of options to weigh up
- **Borrowing power: Can you afford to buy?**

IT'S a lie to say that numbers don't lie. This is especially true in the real estate debate about whether you are financially better off renting or buying a house. □□Crunching the numbers for this argument can produce almost any answer you like, depending on the assumptions made for factors such as interest rates, house prices, rental costs, investment growth and tax deductions. □□And, of course, there's the matter of trying to save up the tens of thousands of dollars it usually takes to build a deposit. □□The "rent money is dead money" line is a fair claim in many cases, but things can get murky when the money saved by renting is invested elsewhere typically shares or an investment property that have tax incentives. □□It's easy enough to compare the basics. For example, Brisbane's median asking rent for a house is \$360 a week, according to a report by [Australian Property Monitors](#). The median house price for Brisbane is \$419,000, says the [Real Estate Institute of Australia](#).

The interest cost of a \$419,000 loan based on a 6.5 per cent interest rate is \$524 a week, and for an 8.5per cent interest rate it is \$685 a week. But the basics just don't tell the full story.

Damon Nagel, managing director of property investment firm Ironfish, says most people don't consider the long list of other factors that affect the renting versus buying decision.

He says people can benefit by owning investment property while themselves living in a rented residence, although these "rental

investors" are uncommon.

"We have an absolute affinity with owning our own castle."

Home ownership offers a sense of security and the ability to change your living environment without seeking permission, Nagel says, which often outweighs any financial benefits.

He has calculated that a single person earning \$70,000 a year who buys a \$400,000 home with a 20 per cent deposit will spend \$469 a week, based on a 6.5 per cent home loan rate and taking into account all the extras such as council rates and mortgage set-up costs.

But a renter in an equivalent \$400,000 property would pay \$420 a week a saving of \$50.

"When interest rates go higher than 7 per cent, it's even more of a no-brainer to be a rental investor," Nagel says.

"The argument shifts back to buying your own home when rates are low."

### **Tax deductions worth considering**

The key factor is the tax deductions property investors can claim something that owner/occupiers cannot do. But a big benefit of being an owner/occupier is that you pay no tax on your property's capital growth. □□ "What you save on a swing you lose on the roundabout," he says. □□ So what is his verdict rent or buy? "It's a Russian roulette question. If I was young and starting out I would do a rental investment. If I had my own home I would keep my own home."

□□ Making your first home an investment property is a strategy also recommended by the chief executive of property company Investa Solutions, Ian Lloyd. □□ "People tend to do things the traditional way and are scared of doing something a different way, but this strategy

means you still own property, and at the worst you can go and move into your investment property," he says. □□Young Australians can benefit from having a tenant help repay their property. "I'm trying to encourage my youngest son at 18 to buy his first property at 19 he will be able to set it up to work for him before he leaves university."

□□Lloyd says the tax deductions are usually the biggest when the investment property is new. "A lot of people forget that you can take your tax benefits in your weekly, fortnightly or monthly pay packet. You don't have to wait until tax time to get the benefit," he says.

□□An income tax variation form is available on the [Tax Office website](#), although Lloyd suggests people get their accountant to have a quick look at this strategy.

"Another thing that people miss is the growth you are getting is on a very big asset," he says. □□"It only has to go up 10 per cent on a \$300,000 property and you have gained \$30,000."

### **Renting a low-hassle option**

Smartline Personal Mortgage Advisers managing director Chris Acret says renting can be attractive for people who want to avoid maintenance costs or want the flexibility to move without the costs and hassles associated with selling a property. □□"Renting may also be a good option for people who want to live in a suburb close to the city or the beach, but can't afford to buy a property in that area," he says. □□"You could buy a property in an adjoining suburb which isn't as expensive but still has good scope for capital growth and rent that out while you rent a property in your preferred suburb." □□Of course, the money saved by renting should be channelled into investment, he says. □□"The most important thing is to be doing something proactive about creating wealth for you and your family. The biggest mistake people make is doing nothing." □□AMP financial planner Darren James says people should remember that property is not a get-rich-quick strategy. □□"At present the cost of borrowing is relatively low, but this environment won't last forever," says James, of MBA Financial Strategists. "Another factor that makes real estate

risky in the short term is transaction costs. □□ "These tend to be pricey often thousands of dollars for stamp duty and agents' fees so buyers need to consider the financial implications," he says.

□□ "Those wanting better short-to-medium-term investment returns could consider other strategies such as managed funds or putting money into a high-interest savings account. For those who are prepared to wait to reap the rewards, home ownership remains a reliable long-term investment. □□ "At the end of the day, the unique needs of the people have to be taken into account, as well as time frames, tax effectiveness and an investor's attitude to risk." □□ Club Financial Services director David Garner believes in buying rather than renting. □□ "People might worry they will be in debt for 30 years, but the alternative is you rent for the rest of your life," he says.

□□ While house price inflation will lower the relative size of the home loan over time, renters always have their costs adjusted upward.

□□ "You are always paying a percentage of your income in rent," he says. □□ Garner says people who end up choosing the renting option need to make sure their savings are properly invested. □□ "Do people have the discipline to do that or does it just get blown on lifestyle?" he says. □□ "It's very rare that we would come across someone in a fantastic financial position who rents their home and has an investment property. Most people have equity in their own home."